CHALLENGES AND OPPORTUNITIES

of the new Brazilian regulatory framework for water and sanitation: the Sabesp case
FOUR HIGHLIGHTS...

Sabesp is strongly committed to public policies and market standards for efficiency and profitability.

The new regulatory framework creates new challenges and opportunities.

Universal coverage of services and environmental solutions are Sabesp’s top priorities.

Sabesp will be able to maintain its investment despite the crisis.
OUTLINE

Sabesp

New regulatory framework

Challenges and opportunities

The impact of the crisis on Sabesp
Sabesp

New regulatory framework

Challenges and opportunities

The impact of the crisis on Sabesp
São Paulo and Brazil

3% of the area
22% of the population
33% of GDP
33% of exports
40% of imports

41 million inhabitants
645 municipalities

Source: IBGE, Seade and Banco Central de Brasil
<table>
<thead>
<tr>
<th>Indicators</th>
<th>Brazil</th>
<th>São Paulo</th>
<th>Argentina</th>
<th>Chile</th>
<th>China</th>
<th>Índia</th>
<th>Rússia</th>
<th>USA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population (million)</td>
<td>186</td>
<td>41</td>
<td>40</td>
<td>16</td>
<td>1,321</td>
<td>1,123</td>
<td>142</td>
<td>298</td>
</tr>
<tr>
<td>Area (thousand Km²)</td>
<td>8,514</td>
<td>248</td>
<td>2,780</td>
<td>757</td>
<td>9,596</td>
<td>3,287</td>
<td>17,075</td>
<td>9,629</td>
</tr>
<tr>
<td>GDP (US$ - bi)</td>
<td>1,313</td>
<td>445</td>
<td>259</td>
<td>163</td>
<td>3,250</td>
<td>1,098</td>
<td>1,289</td>
<td>13,844</td>
</tr>
<tr>
<td>GDP per capita (US$)</td>
<td>7,059</td>
<td>10,854</td>
<td>6,475</td>
<td>10,188</td>
<td>2,460</td>
<td>978</td>
<td>9,077</td>
<td>46,456</td>
</tr>
</tbody>
</table>

Source: IMF, Seade Foundation, IBGE
SABESP: 26.4 MILLION CLIENTS IN THE STATE OF SÃO PAULO (60% OF THE URBAN POPULATION)...

Company figures
- Foundation: 1973
- Employees: 16,800
- Municipalities: 366
- Business units: 16
## Basic Information

- **Foundation in**: 1973
- **Employees**: 16,800
- **Serves the City of São Paulo and 366 out of 645 municipalities in the State**
- **Provides water to 23.1 million people and sewage services to 19.0 million people**
- **Also sells wholesale treated water to 6 municipalities (3.3 million people)**
- **Covers 60% of State's urban population**

## Main Operational Indicators (1)

<table>
<thead>
<tr>
<th></th>
<th>Water</th>
<th>Sewage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Connections (million)</td>
<td>6.9</td>
<td>5.3</td>
</tr>
<tr>
<td>Coverage (%)</td>
<td>100%</td>
<td>79%</td>
</tr>
<tr>
<td>Treatment (%)</td>
<td>100%</td>
<td>72%(2)</td>
</tr>
<tr>
<td>Volume Billed (m³ million)</td>
<td>1,400.1</td>
<td>990.1</td>
</tr>
<tr>
<td>Network (km thousand)</td>
<td>62.4</td>
<td>41.0</td>
</tr>
</tbody>
</table>

(1) As of June 30, 2008  
(2) Treated sewage as percentage of collected sewage
ONE OF THE LARGEST WATER AND SEWAGE SERVICE PROVIDERS IN THE WORLD...


(*) includes 3.1 million clients in municipalities currently served on a wholesale basis
STRONG CORPORATE GOVERNANCE...

- Mixed capital company
- Listed on the “Novo Mercado” and NYSE, leading to high corporate governance standards
- 100% common shares

**Ownership Distribution**

- State of São Paulo Government: 50.3%
- NYSE: 25.1%
- Bovespa: 24.6%
EBITDA MARGIN HAS REMAINED AT A HIGH LEVEL...
NET REVENUES HAVE INCREASED...

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Revenues (US$ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>2065</td>
</tr>
<tr>
<td>2004</td>
<td>2199</td>
</tr>
<tr>
<td>2005</td>
<td>2477</td>
</tr>
<tr>
<td>2006</td>
<td>2764</td>
</tr>
<tr>
<td>2007</td>
<td>2985</td>
</tr>
<tr>
<td>9M07</td>
<td>2202</td>
</tr>
<tr>
<td>9M08</td>
<td>2323</td>
</tr>
</tbody>
</table>
Between 2007 and 2008, enough water connections were built to incorporate 600 thousand inhabitants into the network yearly.

The sewage treatment were expanded to provide services to over 1.25 million inhabitants yearly.

Water losses fell from 32% of revenues in 2006 to around 28% in 2008 – savings representing water supply to over 600 thousand inhabitants yearly.

Electricity consumption dropped from 0.657 KWh to 0.648 KWh per cubic meter of water produced – energy to 14,5K households in one year.
OUTLINE

- Sabesp
- New regulatory framework
- Challenges and opportunities
- The impact of the crisis on Sabesp
**THE REGULATORY FRAMEWORK HAS CHANGED...**

<table>
<thead>
<tr>
<th><strong>1970 - Planasa</strong></th>
<th><strong>2007 – Sanitation Act and Arsesp Act</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Concession contract</td>
<td>Programme contract</td>
</tr>
<tr>
<td>Self-regulation</td>
<td>Regulatory agency</td>
</tr>
<tr>
<td>Public funding</td>
<td>Market and public funding</td>
</tr>
<tr>
<td>Focus on engineering works</td>
<td>Focus on the client</td>
</tr>
<tr>
<td>Natural monopoly</td>
<td>Competitive environment</td>
</tr>
<tr>
<td>Water as a free resource</td>
<td>Scarcity of water resources</td>
</tr>
</tbody>
</table>

Source: IMF, Seade Foundation, IBGE
CHANGES IN THE LEGISLATION ALLOW FOR NEW BUSINESS OPPORTUNITIES...

Joint ventures with domestic and foreign companies

New business opportunities
- Urban cleaning and waste management
- Waste disposal
- Urban runoff treatment and management
- Energy
OUTLINE

Sabesp

New regulatory framework

Challenges and opportunities

The impact of the crisis on Sabesp
In 2018
Being recognized as a company which universalized water and sewage services in the areas where it operates, in a sustainable and competitive way with focus on clients and excellence in environmental solutions
## Contracts with municipalities

<table>
<thead>
<tr>
<th>Contracts Renewal – Annual Target</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contracts renewed</td>
<td>107</td>
<td>53</td>
<td>89</td>
<td>58</td>
<td>160</td>
</tr>
</tbody>
</table>
ACHIEVE UNIVERSAL COVERAGE OF CORE SERVICES BY 2018...

111 municipalities already have full water and sewage services

- **2009**: Baixo Tietê e Grande
- **2010**: Pardo e Grande, Baixada Santista, Baixo Panapanema e Vale do Ribeira
- **2012**: Vale do Paraíba, Alto Paranapanema, Capivari, Jundiaí, Região Bragantina, Litoral Norte e Médio Tietê
- **2018**: São Paulo Metropolitan Area
CAPEX PLAN FOR 2007 – 2010...

Total investment plan of US$ 3 billion for 2007-10

<table>
<thead>
<tr>
<th>Year</th>
<th>Investment (US$ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>297.0</td>
</tr>
<tr>
<td>2004</td>
<td>300.5</td>
</tr>
<tr>
<td>2005</td>
<td>339.1</td>
</tr>
<tr>
<td>2006</td>
<td>452.5</td>
</tr>
<tr>
<td>2007</td>
<td>460.6</td>
</tr>
<tr>
<td>9M07</td>
<td>287.1</td>
</tr>
<tr>
<td>9M08</td>
<td>540.6</td>
</tr>
</tbody>
</table>
UNIVERSAL COVERAGE WILL BE ACHIEVED AS A RESULT OF THE IMPLEMENTATION OF STRUCTURAL PROGRAMS...

São Paulo metropolitan region
- PMA – Water Supply
- Tietê Project
- Vida Nova Program
- Córrego Limpo Program

Regional systems
- Onda Limpa program
- Água do Litoral program
- Onda Limpa Litoral Norte program
- Reduce water losses
TIETÊ PROGRAM: ONE OF THE MOST AMBITIOUS ENVIRONMENTAL PROGRAM FOR THE TIETÊ BASIN...

- Expansion of the sewage system in São Paulo metropolitan region

- Improvement of sewage services to over 11 million people

- 120 km reduction of the pollution spot in the Tietê river
### Tietê Program: Going into Phase III...

<table>
<thead>
<tr>
<th>Period</th>
<th>Phase</th>
<th>Sewage collection</th>
<th>Sewage treatment</th>
<th>Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992-1998</td>
<td>1</td>
<td>70 -&gt; 81%</td>
<td>24 -&gt; 63%</td>
<td>US$ 1.1 billion</td>
</tr>
<tr>
<td>2002-2008</td>
<td>2</td>
<td>81 -&gt; 84%</td>
<td>63 -&gt; 70%</td>
<td>US$ 500 million</td>
</tr>
<tr>
<td>2009-2015</td>
<td>3</td>
<td>84 -&gt; 88%</td>
<td>70 -&gt; 79%</td>
<td>US$ 1.05 billion</td>
</tr>
</tbody>
</table>

* in negotiation
TIETÊ’S SEWAGE TREATMENT SYSTEM IN SÃO PAULO METROPOLITAN REGION...

- **WWT Barueri**
  - Capacity: 9,5 m³/s

- **WWT Pq. Novo Mundo**
  - Capacity: 2,5 m³/s

- **WWT São Miguel**
  - Capacity: 1,5 m³/s

- **WWT ABC**
  - Capacity: 3,0 m³/s

- **WWT Suzano**
  - Capacity: 1,5 m³/s
ONDA LIMPA (CLEAN WAVE) PROGRAM: ONE OF THE LARGESTS SANITATION PROGRAMS IN LATIN AMERICA...

Investment in Baixada Santista region in 2007-1: US$ 780 million

Increase in sewage collection: to 95% from 53%
REDUCE WATER LOSSES TO ENHANCE OPERATIONAL EFFICIENCY AND FINANCIAL AND ENVIRONMENTAL SUSTAINABILITY...

Brazil’s average water losses = 39.8% of revenue
Sabesp’s water losses = 28% of revenue

Source: SNIS-2006 and Sabesp-2008
Vida Nova (New Life): recovering and protecting Billings and Guarapiranga reservoirs...

- Investment: US$ 600 million
- Sabesp Investment: US$ 42 million
- Coordinated by the Sanitation and Energy Secretary of São Paulo State
- US$ 100 million financed by BIRD
NEW DIVISIONS TO COPE WITH A NEW EXTERNAL ENVIRONMENT...

Raising awareness of environmental issues into all business activities and preserving water resources and the natural environment

Adopting best regulatory practices and disseminating regulatory culture

Evaluating opportunities in new markets and supporting implementation of new businesses

Organizing and expanding efforts towards research and technological development

Environmental management

Regulatory Issues

New Businesses

R&D
STRENGTHENING CORPORATIVE MANAGEMENT...

- Improving Strategic Planning
- Implementing Economic Value Added (EVA) models
- Enhancing Corporate Governance
- Enlarging the role of the executive board
- Transparency and competition in the supply chain
EXPLORE NEW BUSINESS OPPORTUNITIES, SUCH AS THE SALE OF WASTEWATER REUSE...

Wastewater reuse / Treated wastewater

- Sabesp 2007: 0.5%
- Central Europe: 1%
- Sabesp 2008: 3.6%
- Greece: 5%
- Italy: 8%
- Australia: 9%
- Spain: 12%
- Israel: 72%
EXPLORING NEW BUSINESS OPPORTUNITIES, SUCH AS COOPERATION WITH OTHER SANITATION COMPANIES...

- Caema-MA
- Caern-RN
- Cagepa-PB
- Casal-AL
- Cesar-ES
- Casan-SC
- Caer-RS
- Sanesul-MS
- Caer-RO

- signed
- to be signed
- being developed
EXPLORE NEW BUSINESS OPPORTUNITIES, SUCH AS PARTNERSHIPS WITH PRIVATE-OWNED COMPANIES...

Mogi Mirim city
EXPLORE NEW BUSINESS OPPORTUNITIES, SUCH AS PUBLIC-PRIVATE PARTNERSHIP (PPP)...

PPP Alto Tietê: expanding Taiaçupeba Station water production capacity from 10 to 15 m³/s
US$ 142 million investment
OUTLINE

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IMPACT OF THE CRISIS ON REVENUES IS EXPECTED TO BE SMALL, AS DEMAND ELASTICITY IS RELATIVELY LOW...

Water – Volume Billed

- Residential: 72%
- Commercial: 15%
- Industrial: 3%
- Public: 3%
- Wholesale: 8%

Sewage – Volume Billed

- Residential: 81%
- Commercial: 11%
- Industrial: 3%
- Public: 3%
- Wholesale: 2%
IMPACT ON PROFITABILITY DUE TO FOREIGN CURRENCY DEBT...

- Local currency: capital markets 29%
- Government banks 47%

- Foreign currencies: capital markets 4%
- Multilaterals: 20%
IMPACT ON CASH FLOW SHOULD BE SMALL, SINCE FOREIGN CURRENCY DEBT IS LONG TERM...

Local currency  |  Foreign Currencies

US$ mm

2008  |  2009  |  2010  |  2011  |  2012  |  2013  |  2014+

0  |  100  |  200  |  300  |  400  |  500  |  600  |  700
ACCESS TO LONG TERM, LOW COST FINANCING...

- Total debt’s average life of 7.2 years
- Access to international and domestic capital markets and multilateral financing
- 83% of foreign currency debt is from multilateral financing

Total Debt Breakdown

- CEF and BB 38%
- Gov. Ag. Foreign 24%
- Gov. Ag. Local 3%
- Foreign Capital Markets 4%
- Local Capital Markets 28%
- Others 3%
INITIATIVES TO PRESERVE SABESP’S INVESTMENT PLAN...

- Cost reduction
- Environmental solutions for larger clients
- Wholesale client’s debt negotiation
- Non-operational assets sale
- New funding instruments
RECALLING THE FOUR HIGHLIGHTS...

Sabesp is strongly committed to public policies and market standards for efficiency and profitability

The new regulatory framework creates new challenges and opportunities

Universal coverage of services and environmental solutions are Sabesp’s top priorities

Sabesp will be able to maintain its investment despite the crisis
THANK YOU!

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